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PUBLIC SERVICE COMMISSION
STATE OF MONTANA

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EX PARTE OR LATE FILED

September 29, 1997

Office of the Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington DC 20554

RE: CC Docket No. 96-45
Federal-State Joint Board on Universal Service

Dear Sir:

Enclosed for filing in the above described docket are the Ex Parte Comments of the Montana Public Service Commission. I have enclosed the original and two copies for inclusion in the public record. Please return a conformed copy of this letter. I have enclosed a self-addressed stamped envelope for your convenience.

Sincerely,

Karen Hammel

Karen Finstad Hammel
Staff Attorney

KH/dlp

Enclosures

EX PARTE OR LATE FILED

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
Federal-State Joint Board	)	CC Docket No. 96-45
on Universal Service	)	

EX PARTE COMMENTS OF THE
MONTANA PUBLIC SERVICE COMMISSION

Introduction and Summary

The Montana Public Service Commission (MPSC) respectfully submits these ex parte comments on the Federal Communications Commission's (Commission) decisions regarding its reform of the federal "high cost" support mechanisms. Specifically, the MPSC is concerned about the decision to use only interstate revenues to fund the federal high cost support program and the decision to require the states to provide 75 percent of the high cost support necessary to keep local service rates affordable.

Montana is one of the highest cost states, and because it has an extremely small population (approximately 800,000 persons) and is the fourth largest state, relies on federal high cost assistance to maintain affordable phone service to many of its citizens. Consequently, Montana may not have a large enough telecommunications market to generate a significant share of the total amount required to support affordable basic services and also comply with the universal service principles of the Telecommunications Act of 1996, 104 Pub. L. No. 104, 110 Stat. 56 (February 8, 1996).

Comments

I. Continuing High Cost Support is Crucial for Montana's LECs

Due largely to its rugged terrain and its sparsely-spaced, small population base, Montana is one of the highest cost states in terms of provisioning basic phone service. Montana has 19 incumbent local exchange carriers (LECs). All but U S WEST Communications, Inc. (U S WEST) and PTI Communications, Inc. (PTI) serve less than 50,000 access lines. PTI serves just over 50,000 access lines in the state. Montana's LECs receive approximately $18 million per year in support from the existing federal universal service fund (USF) and are also able to shift approximately $6 million per year from the intrastate jurisdiction to the interstate jurisdiction through DEM weighting.

Using 1997 estimated payments, the average high cost assistance per line for Montana's participating companies is between $15 and $20 per month, with LECs operating in the highest cost areas receiving more than $50 per line per month. Other things held constant and without continuing federal assistance at this present level, these companies' local rates could easily become prohibitively high, resulting in a sharp decline in Montana's telephone penetration rates.

II. The Need for High Cost Support in Montana May Increase

The advancement of competition and the transition to the new universal service mechanisms will likely increase the amount of support needed in the state. Currently, nearly all federal high cost support for Montana LECs is targeted to the state's smaller LECs. U S WEST, which currently serves approximately 75 percent of the access lines in Montana, receives little USF support and no DEM weighting assistance. Instead, U S WEST relies largely on implicit support mechanisms to keep rates affordable in its high cost areas. However, competition and regulatory forces are working to limit the ability of U S WEST to sustain these implicit support mechanisms.

Coincident with these changes, U S WEST's study area will soon be disaggregated into smaller geographic "designated service areas," many of which are high cost service areas. Therefore, while U S WEST currently receives little federal high cost support, it is very likely that many of U S WEST's designated service areas will qualify for substantial high cost support. This will increase the total amount of support needed in Montana.[1]

III. Insufficiency of Funds in High Cost, Low Population States Such as Montana

Although it is impossible to determine with any degree of certainty the total amount of support that will be needed by Montana LECs once reform of the federal high cost program is completed, it is conceivable that the state's total need for support could increase substantially. The telecommunications market in Montana may simply be too small to internally generate a significant share of the total amount needed to support affordable basic services in Montana and still comply with the universal service principles of the Telecommunications Act of 1996.

The Commission's "25/75" decision seems to place the greatest burden on states, such as Montana, that are the least able to bear the burden. The inability of some states to internally generate enough support to maintain affordable service is the very reason a federal high cost support program is needed. Requiring individual states to internally fund a substantial portion of the support necessary in their state would undermine the very purpose of a federal fund.

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1 In fact, according to AT&T's analyses presented in the US West/AT&T local interconnection arbitration case, nearly 10% of US West's loops in Montana cost more than $96/month. *See* Exhibit JCK-3 of AT&T's arbitration petition in Docket D96.11.200.

As an example, assume Montana's need for high cost support doubled to $50 million/year for the reasons explained above. Seventy-five percent of this amount (or $37.5 million) equals approximately $83 per access line per year that would have to be provided by a state universal service fund. Compare this to a state such as California. If California's need for high cost support also doubled (to $40 million), the amount a California state fund would need to generate to recover 75 percent of its need would only be about $1.50 per access line per year. This result would be blatantly inconsistent with Congress's universal service principles of comparable rates across the country and of equitable contributions.

IV. Revenue Base for High Cost Support Contributions

The MPSC is also concerned about the Commission's decision to use interstate-only revenues of interexchange carriers to fund the federal share of high cost support. A surcharge on interexchange carriers' combined interstate and intrastate revenues to raise federal high cost support would more equitably and nondiscriminatorily spread the impacts caused by the contributions across a broader revenue base than using interstate-only revenues, and would minimize the impacts to individual carriers and to customers. Please refer to the ex parte comments filed by the MPSC on April 18, 1997 in CC Docket No. 96-45 for a more in-depth discussion of this issue.

Conclusion

The MPSC urges the Commission to reserve a final decision on the jurisdictional split of high cost support responsibility until more information is known regarding the costing methodology that will be used and the total amount of support that will be necessary. Until the total support needed for each state is known, it is premature to determine the appropriate jurisdictional split for that funding.

The MPSC also requests the Commission to reconsider its decision on the appropriate revenue base for federal support. A combined interstate and intrastate revenue base for funding the federal high cost support would provide a more equitable and nondiscriminatory method of funding the federal high cost support program.

The MPSC acknowledges the complexity of the issues involved in reforming the current universal service program and applauds the Commission's efforts to resolve these issues. The MPSC also applauds the efforts underway by the states to develop ideas for alternative federal high cost funding mechanisms. The responsibility for maintaining affordable access to high quality telephone services throughout the nation belongs jointly to the states and the Commission. The goals of the 1996 Act can best be achieved by continuing and increasing federal and state collaborative efforts.

Dated this 29th day of September, 1997.

Respectfully submitted,

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